MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2015/2016

ULE2612 – LAW AND ECONOMICS

(All sections / Groups)

31 MAY 2016
Reading Time : 9.00 a.m. – 9.15 a.m.
(15 Minutes)
Answering Time: 9.15 a.m. – 12.15 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENT

1. Students will have **fifteen minutes** during which they may read the paper and make rough notes ONLY in their question paper. Students then have the remaining **THREE HOURS** in which to answer the questions.
2. This question paper consists of 4 pages with 5 questions only.
3. Attempt **ALL** questions in **Part A** and **ANY TWO** questions in **Part B**. The distribution of the marks for each question is given.
4. Students are not allowed to bring in any statute and calculator into the Examination Hall.
5. Please write all your answers in the Answer Booklet provided.

PART A
(Answer all questions.)

QUESTION 1

(a) With the help of an appropriate diagram, explain the following concepts:

(i) Equilibrium,
(ii) Deadweight loss when there is a quantitative restriction,
(iii) Indifference curve.

(3 x 6 marks = 18 marks)

(b) Commercial taxis in Malaysia are now facing heavy competition from private unlicensed taxis provided through ride-hailing apps such as Uber and Grabcar. One of the key selling points of the latter is that the price they offer for rides are cheaper than that based on the standard rate fixed by the government for commercial taxis.

Assuming that it is virtually impossible for the government to prevent the rise of ride-hailing apps and their use, explain using suitable economic terms and a possible model, what the above situation represents, and what the efficient solution should be.

(7 marks)

(Total: 25 marks)

Continued ...

QUESTION 2

(a) Explain the differences between the normative Coase Theorem and the approach proposed by Calabresi and Melamed with regards to achieving an efficient allocation of property rights.

(10 marks)

(b) Miyazawa, the promisor, entered into a contract with Arima, the promisee, to sell an antique vase for the price of *P1*, which Arima values at *V*. However before the transaction was completed, Suzuki approached Miyazawa to sell her the same antique vase at the price of *P2*, where $P2 > P1$. Miyazawa now wishes to terminate the contract with Arima and pay damages *D* instead.

(i) Using the above figures, explain the theory of efficient breach.

(3 marks)

(ii) Show that in order to achieve an efficient breach, damages must be set at the expectation measure.

(12 marks)

(Total: 25 marks)

Continued ...

Part B
(Answer two questions.)

QUESTION 3

The existence of intellectual property rights is attributed to solving a market failure problem associated with the creation of new information.

Explain the above statement in relation to trade marks.

(Total: 25 marks)

QUESTION 4

(a) Using an appropriate diagram, explain why a monopoly selling at a single monopoly price is inefficient.

(10 marks)

(b) Describe the three degrees of price discrimination under monopoly power, and identify which of them can be considered as efficient.

(3 x 5 marks = 15 marks)

(Total: 25 marks)

Continued ...

QUESTION 5

(a) Define the term 'negative externality'.

(3 marks)

(b) According to A.C. Pigou, the efficient solution to negative externality is to impose a tax. Demonstrate how Pigou's suggestion could be implemented for vehicular pollution.

(15 marks)

(c) Explain why R.H. Coase disagrees with A.C. Pigou's suggestion on the above matter.

(7 marks)

(Total: 25 marks)

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